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# **LDC Debt Issues: Developments and Prospects**

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**An Intelligence Assessment**

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*GI 85-10083  
March 1985*

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# **LDC Debt Issues: Developments and Prospects**

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**An Intelligence Assessment**

This paper was prepared by [redacted]  
[redacted] Office of Global Issues. Comments and  
queries are welcome and may be directed to the  
Chief, Financial Issues Branch, OGI, [redacted]

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**Key Judgments***Information available  
as of 15 March 1985  
was used in this report.*

We believe that the debt crisis of the less developed countries has passed but that further cooperation among and hard work by both creditors and debtors is necessary—along with favorable world economic conditions—to maintain the progress. Although many financial observers are optimistic about the LDC debt situation, we believe that the international financial situation will remain under stress for the next three to five years because of LDC balance-of-payments problems. Even this year could bring problems as some countries' difficulties in meeting IMF goals lead to noncompliance, a cutoff of new money, and increased creditor-debtor tensions.

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One unsettling development is the rising outspokenness of Latin debtors on their financial difficulties. Through a series of meetings, Latin American countries sought to pressure creditors persistently but moderately for additional debt solutions. At a meeting in Cartagena last June, 11 nations formed the Cartagena Group, which established a political forum to voice Latin concerns. The chief goal of the Group is to arrange a political dialogue on debt among the highest levels of Latin and industrial-country governments.

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The flavor and results of the Cartagena process suggest that Latin debtors will continue to support joint action as long as it does not threaten their ability to negotiate individually with creditor banks and governments. They are increasingly willing to press for changes in the policies and operations of official and private Western institutions, which they probably will demonstrate at the IMF/IBRD committee meetings in April. The debtors perceive their forum as being largely responsible for concessions they received from commercial banks last year, but we believe its influence is exaggerated.

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In our judgment, the major challenges in 1985 will relate to debtors' failure to comply with IMF-supported programs and partly associated creditor reluctance to lend new money. Industrial-country protectionism and continued high real interest rates also will be key issues. Moreover, because these problems may prevent debtors—particularly the Latins—from continuing the progress made last year, the tone of the Cartagena Group pronouncements may become more strident.

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March 1985

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**Contents**

	<i>Page</i>
<b>Key Judgments</b>	iii
<b>Restructurings in 1984</b>	1
The Mexican Model	1
Restructurings for Other Key Debtors	2
<b>Latin American Debt Initiatives</b>	4
Consensus of Cartagena	4
Mar del Plata Communique	5
Declaration of Santo Domingo	5
Objectives and Strategies	5
<b>Outlook</b>	6
Near-Term Prospects	6
Cartagena Group Outlook	7
Longer Term Concerns	7
 <b>Appendixes</b>	
A.    Individual Country Restructurings	9
B.    Chronology of Latin American Debt Talks	11

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## LDC Debt Issues: Developments and Prospects

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### Restructurings in 1984

Debt restructurings continued at a high level during 1984. Matching 1983's record number of countries obtaining debt relief, 25 nations formally or tentatively agreed on debt restructuring with commercial banks and Western governments in 1984. The amount of debt covered in the restructurings totaled about \$115 billion, more than double the 1983 record of \$55 billion. The \$115 billion figure is somewhat misleading, however, because it includes obligations due not only in 1984, but also in the period 1981-90 (see tables 1 and 2).

Several general trends were evident in 1984 debt restructuring:

- A few countries negotiated multiyear rescheduling agreements (MYRAs) from commercial banks, in which several years of repayments were rescheduled at one time instead of the usual one year of repayments.
- Terms on debt restructurings generally were more favorable during 1984 than in 1983. On average, creditors granted debtors longer tenors—the number of years to maturity—and grace periods, reduced fees, and received smaller interest spreads.
- The IMF again played the key role, as nearly all debt restructurings required either a Fund program in place or provisions for IMF monitoring of a debtor's economy.
- New lending by commercial banks to debt-troubled countries continued to be involuntary and directly tied to IMF-supported programs.

### The Mexican Model

For many observers, the most important debt development in 1984 was the tentative Mexican multiyear rescheduling agreement reached in September. The

agreement between the Mexicans and their bank advisory committee marked the first time creditors looked beyond a stopgap solution for a major debtor country. Moreover, the concessions made by commercial banks were intended to be a sign of creditor flexibility in dealing with troubled debtors. Although bankers agreed that the Mexican MYRA established a precedent in debt negotiations, they also emphasized that Mexico was being rewarded for implementing austerity measures.

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Debtors viewed the Mexican agreement as the model for other restructurings, not only because of the multiyear aspect, but also the more favorable terms. The interest spread on the Mexican model averaged 1.125 percentage points above LIBOR with a tenor of 14 years; the comparable figures for the 1983 Mexican restructuring were 1.875 percentage points and eight years. In addition, the 1984 Mexican agreement contains no rescheduling fees. Most other major debtors have pushed for MYRAs, but only Ecuador and Venezuela have received them; a Brazilian MYRA is currently under negotiation. Like Mexico, these countries were rewarded for their progress in economic adjustment. Poland also has received a multiyear restructuring, but creditors regard it as a special case because of the country's ability to make only minimal payments on its debt.

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An important compromise in the Mexican MYRA involved IMF monitoring of Mexico's economic performance over the term of the rescheduling.

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Mexico had insisted that it would not implement another IMF-supported program once its current extended fund facility expires at the end of 1985. The banks, however, demanded a role for the IMF. In the end, Mexico consented to periodic reviews of its economic performance by the IMF, the results of which will be shared with the banks. this unique

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**Table 1**  
**LDC Official Restructurings, 1984-85**

	Country	Date	Amount Restructured (million US \$)	Consolidation Period	Tenor (years)	Grace Period (years)	Arrears Rescheduled
1984	Sierra Leone	Feb	25	Jan 84-Dec 84	10	5	Yes
	Madagascar	Mar	89	Jun 83-Dec 84	10.3	4.8	Yes
	Sudan	May	269	Jan 84-Dec 84	15.5	6	No
	Ivory Coast	May	356	Dec 83-Dec 84	8.5	4	No
	Yugoslavia	May	800	Jan 84-Dec 84	6.5	4	No
	Peru	Jun	704	May 84-Jul 85	8.5	5	No
	Togo	Jun	75	Jan 84-Apr 85	9.5	4.8	No
	Jamaica	Jul	105	Jan 84-Mar 85	8.5	4	Yes
	Zambia	Jul	253	Jan 84-Dec 84	9.5	5	No
	Cuba	Jul	250	Jan 84-Dec 84	9	4.5	No
	Mozambique	Oct	404	Jan 84-Jun 85	10.5	5	Yes
	Niger	Nov	26	Oct 84-Nov 85	9.5	5	No
	Liberia	Dec	17	Jul 84-Jun 85	9.5	5	No
	Philippines	Dec	750	Jan 85-Jun 86	9.3	4.8	Yes
1985	Argentina	Jan	2,100	Jan 85-Dec 85	10	5	Yes
	Poland	Jan	11,000	Jan 82-Dec 84	11	5	No
	Senegal	Jan	85	Jan 85-Jun 86	9	4	Yes

arrangement is not considered optimal by the banks, because it reduces the leverage that they have over Mexico by eliminating the link between adjustment measures and debt restructuring. [REDACTED]

The Mexican agreement, although approved by the bank advisory committee, has yet to be ratified by all 530 individual bank creditors because of the paperwork involved. Much of the delay is centered on the currency conversion provision, which allows creditors to convert Mexican debt held in US dollars into the banks' domestic currency. For example, Japanese banks may choose to convert a portion of their Mexican exposure into yen. In conjunction with the currency option, creditor banks may change the relevant interest rate from LIBOR to the domestic interest rate of the banks' home country. Nevertheless, the bank advisory committee expects the signing to occur on 29 March in New York, [REDACTED]

#### Restructurings for Other Key Debtors

By yearend 1984, debt restructuring negotiations between commercial banks and most of the remaining major debtors were either completed or in progress (see appendix A). Among Latin nations, Venezuela, Argentina, and Ecuador have reached tentative accords with their bank advisory committees, and Brazil is currently close to agreement pending resolution of its differences with the IMF. The Philippines also has a tentative agreement with its bank advisory committee. All of these countries are waiting for full approval by all creditor banks. Meanwhile, Yugoslavia and Poland had their debt rescheduled by commercial bank creditors in 1984. Yugoslavia currently is negotiating with the banks on a restructuring of 1985-88 principal repayments. [REDACTED]

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**Table 2**  
**LDC Private Restructuring, 1984-85 <sup>a</sup>**

	Country	Date	Amount Restructured (million US \$)	Years Covered	Tenor (years)	Grace Period (years)	Spread (percentage points above LIBOR)
1984	Brazil	Jan	5,500	1984	9	5	2.000
	Sierra Leone	Jan	25	1983	7	2	1.750
	Morocco	Jan	530	1983-84	8	4	1.750
	Senegal	Feb	114	1981-84	7	3	2.000
	Peru	Feb	1,500	1984-85	9	5	1.750
	Niger	Mar	26	1983-85	7.5	3.5	2.000
	Nigeria	Apr	6,000	1984	6	2.5	1.000
	Poland	Apr	1,615	1984-87	10	5	1.750
	Yugoslavia	May	1,200	1984	7	4	1.625
	Jamaica	Jun	164	1983-85	5	2	2.500
	Ivory Coast	Jul	550	1984-85	7.5	2.5	1.875
	Mexico	Sep	48,500	1984-90	14	1	1.125
	Venezuela	Sep	21,000	1984-88	12.5	0	1.125
	Colombia	Nov	420	1984	7	2.5	1.625
	Cuba	Dec	100	1984	9	5	1.875
	Honduras	Dec	230	1982-85	10	3	1.500
	Liberia	Dec	64	1983-84	6	3	0.750
	Zambia	Dec	75	1983-85	7	3	2.250
	Argentina	Dec	13,400	1982-85	10	3	1.375
	Ecuador	Dec	4,300	1985-89	12	3	1.375
	Philippines	Dec	5,800	1983-86	10	5	1.675
1985 (in progress)	Brazil		45,300	1985-91	16	7	1.125
	Costa Rica		344	1985-86	10	3	1.625
	Panama		640	1985-86	10	5	2.250
	Yugoslavia		3,500	1985-88			

<sup>a</sup> Includes countries that have reached formal or tentative agreement with private creditors.

A number of other larger debtors have made varying degrees of progress on their debt restructuring. Chile and the IMF reached preliminary agreement on an adjustment program in early March, and talks with the banks on a restructuring of 1985-86 maturities will begin soon. Peru tentatively agreed in February 1984 with its bank advisory committee on a restructuring of \$1.5 billion in 1984-85 principal repayments, but implementation has been held up by Lima's

inability to come to terms with the Fund on a new program. Nigeria worked out a deal in April 1984 with its uninsured creditors on a restructuring of an estimated \$6 billion in short-term trade credits. Talks on the restructuring of trade credits owed to insured creditors, however, have been at an impasse for nearly a year because of Nigeria's refusal to undertake an IMF-supported program.

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**Cartagena Group Proposals****Industrial Governments**

- Reduce nominal and real interest rates
- Eliminate OECD protectionism
- Help stabilize commodity prices
- Increase resources of the IMF, World Bank, and IDB
- Eliminate regulatory rigidities that impede bank lending
- Give longer maturities and lower interest rates at the Paris Club
- Offer concessional official credits

**IMF**

- Establish a compensatory fund for high interest rates
- Distribute a new SDR allocation
- Increase access to resources
- Relax conditionality, for example, more flexible fiscal deficit limit
- Allow the restructuring of payment arrearages to the Fund
- Raise funds through private markets
- Acquire more resources from official sources

**World Bank and IDB**

- Increase program loans
- Increase maximum allowable percentage of financing of project costs

- Accelerate disbursements of credits by rotating funds
- Allow flexible assigning of unused resources
- Lower local currency counterpart requirement
- Reduce commissions
- Eliminate graduation of countries
- Ease policy regarding suspension of disbursements caused by payment delays

**Commercial Banks**

- Lengthen repayment and grace periods
- Charge minimal spreads and eliminate commissions
- Offer multiyear restructurings and capitalization of interest
- Eliminate the use of administered rates, for example, US prime rate
- Increase financing, particularly short-term credits
- Defer interest payments in extreme circumstances, for example, Bolivia
- Drop IMF agreement as a condition for restructuring

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**Latin American Debt Initiatives**

Apart from restructurings, the key development relating to debt negotiations during the past year has been the rising outspokenness of Latin debtors. The process of politicizing the debt issue began in February 1983, when the President of Ecuador, Osvaldo Hurtado, sent a proposal to the Economic Commission for Latin America (ECLA), the Latin American Economic System (SELA), and all Latin American nations seeking a common response to the region's economic crisis. His initiative led to several meetings on debt, with the first ministerial-level gathering being held in Quito in

January 1984. Out of these higher level meetings came a series of formal statements outlining Latin proposals on the debt situation (see appendix B).

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**Consensus of Cartagena**

The most specific proposals came from the June 1984 ministerial-level meeting held in Cartagena, Colombia. Although the resulting statement generally was moderate in tone, the 17 specific proposals for relief

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went further than previous Latin declarations and contradicted longstanding US policy. Moreover, establishment of the Cartagena Group<sup>1</sup> created a permanent forum to voice Latin concerns; this consultative system would enable the debtors to coordinate their actions more effectively by sharing information on debt negotiations. [ ]

#### Mar del Plata Communique

The September 1984 followup ministerial meeting of the 11 Cartagena Group countries in Mar del Plata resulted in a moderately worded, 10-point communique that expressed concern over the loss of the "sense of urgency" by the industrial countries regarding debt repayment difficulties. They also indicated that they would invite the industrial governments to engage in a direct political dialogue in the first half of 1985. [ ]

#### Declaration of Santo Domingo

To prepare a group position for the April 1985 IMF/IBRD Interim and Development committee meetings, the Cartagena Group met in the Dominican Republic in February 1985. Issues they addressed that will be brought up at the IMF/IBRD meetings include the extension of Mexican-like restructuring terms to other debtors, a broadening of debt negotiations beyond commercial banks to include creditor governments and institutions, and the recognition of hardships brought on Latin debtors by stringent adjustment programs and unfavorable external factors. [ ]

#### Objectives and Strategies

Although the Cartagena Group established a political forum to voice Latin concerns, no consensus has been reached in favor of radical proposals such as a unilateral moratorium on interest payments. The creation of the consultative system does, nevertheless, indicate a heightened level of participation on the part of political leaders to press for changes in the policies and operations of official and private Western institutions. Debtors perceive the forum as having advanced their efforts to obtain concessions from commercial banks, but we believe their influence is exaggerated. Many of the group's proposals—MYRAs, lower

spreads, longer tenors, no commissions—have been incorporated into 1984 commercial bank debt negotiations, but banks have done so only for debtors who have undertaken adjustment measures. [ ]

By trying to arrange a political dialogue on international debt between the Latin American and industrial-country governments, the debtor nations are seeking "coresponsibility" for finding a solution. [ ] we believe the dialogue would begin with a general exchange of impressions and ideas and would evolve toward the implementation of specific measures to relieve LDC debt burdens and to promote further financial flows to debtors. [ ]

The Cartagena Group is also trying to shift debt negotiations from commercial banks and the IMF to creditor governments, particularly high-level officials. The debtor group set up the consultative mechanism to raise the debt issue to a political level among themselves. They also have shown a willingness to use all existing forums—including the IMF, World Bank, Inter-American Development Bank, United Nations, and the Organization of American States—to discuss and issue public statements pressing for additional debt solutions, although they remain committed to the Cartagena movement. [ ]

According to Embassy and press reporting, to get industrial countries involved in a dialogue with them, the Cartagena Group intends to:

- Present a joint position at the IMF/IBRD committee meetings.
- Talk with principal creditor countries to formalize an invitation to a dialogue on debt.
- Send their proposals to the countries attending the Bonn Summit in May.
- Attract international public attention to their problems.

The Cartagena Group is planning to meet again following the April IMF/IBRD committee meetings to assess the results of those meetings and discuss further action. [ ]

<sup>1</sup> Argentina, Bolivia, Brazil, Chile, Colombia, Dominican Republic, Ecuador, Mexico, Peru, Uruguay, and Venezuela. [ ]

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## Outlook

The crisis surrounding LDC financial difficulties has lessened as LDCs have improved their liquidity positions, continued their economic adjustment, and boosted their exports. In our judgment, however, the situation remains delicate because continued progress hinges on many players with differing agendas as well as on developments in the world economy. [ ]

## Near-Term Prospects

With most major debtors already having engaged in debt negotiations, the volume of debt restructured and the number of reschedulers should be fewer this year than in 1984. We believe commercial banks will continue to reward financially troubled countries whose balance-of-payments positions have shown marked improvement. We doubt, however, that debt rescheduling terms for most countries will be as favorable in 1985 as the 1984 Mexican agreement. Banks will resist granting Mexican-like terms to other countries unless they show strong performance under an IMF-supported program. [ ]

Moreover, the restructuring packages for many debtors—including Mexico, Venezuela, Argentina, the Philippines, and Ecuador—have not been formally approved by all creditor banks. The currency conversion in Mexico, the lack of progress on private-sector arrearages in Venezuela, and the refusal of a Saudi bank to participate in the Philippine package all have held up agreements in those countries. Excessive delays in the implementation of these agreements could lead to their unraveling and thus force a new round of negotiations. [ ]

As the number of formal restructuring negotiations declines, we believe debtors' compliance with Fund programs will become the most important issue in 1985.<sup>2</sup> The case-by-case approach to the LDC debt problem has alleviated the crisis, but primarily because countries have undertaken financial adjustments. Over 30 countries are under a standby or extended arrangement with the IMF, and failure to comply could lead to a rapid deterioration in a [ ]

**Table 3**

## External Economic Factors

	1983	1984	1985 <sup>a</sup>
OECD real GNP growth ( <i>percent</i> )	2.6	4.8	3.0
OECD import growth ( <i>percent</i> )	4.0	12.0	6.5
Average OPEC oil price (\$/bbl)	29.3	28.7	28.5
Interest rates ( <i>percent</i> )			
LIBOR	9.6	10.8	10.0
US prime	10.8	12.0	11.5

<sup>a</sup> OECD and CIA Estimates.

[ ]

country's ability to service its debt. Noncompliance also could hold up or jeopardize commercial bank negotiations. The most worrisome situations for 1985 involve major debtors—Argentina, Brazil, and the Philippines. The IMF suspended its program for Brazil in mid-February, and the banks in turn halted negotiations on a multiyear restructuring package until a new Fund agreement is in place. [ ]

An additional factor affecting compliance is the desire of debtors to continue their domestic economic adjustments. After several years of little or no economic growth, debtors are experiencing increased domestic pressure to boost growth even at the expense of sidetracking adjustment measures. Thus far, debtor governments have determined that cooperation with the IMF and the banks is more beneficial than conflict, but an increase in either the political or economic costs could change that position. [ ]

The global economic situation through the first few months of 1985 has been generally favorable for developing countries (see table 3). World interest rates have continued the downward trend begun in July 1984; LIBOR, for example, has fallen from 12 to 9 percent over the past six months. Various data sources suggest that each 1-percentage-point drop in interest

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rates results in a \$4 billion saving in interest payments by LDCs. Meanwhile, the softening of oil prices over the past several months has benefited most LDCs, particularly major oil-importing debtors like Brazil and the Philippines. Major oil exporters such as Mexico, Nigeria, and Venezuela have been hurt somewhat by the loss in oil export revenues, but so far they have been able to withstand the drop. [ ]

Various financial sources, however, suggest that any further improvement in LDC trade and current account balances—after the strong showing in 1984—will be hard. Growth in the United States is expected by most forecasters to be slower than in 1984, while other OECD economies will grow only moderately. In addition, inflation will continue to be low, keeping the level of real interest rates high. Finally, most OECD countries have yet to indicate a willingness to ease substantially their protectionist policies. [ ]

#### **Cartagena Group Outlook**

The flavor and results of the Cartagena process suggest that Latin debtors will continue to support joint action as long as it does not threaten their ability to negotiate individually with commercial banks and creditor governments. The unique and diverse financial situations of each debtor country, the continuing disagreement over how to resolve their debt problems, and the fear of financial fallout have combined to prevent a hardline approach by the Group. Falling US dollar interest rates, improved LDC external balances, and continued progress in debt negotiations also have moderated Latin debtor criticism. [ ]

Several developments, however, could alter this moderate stance in the coming months:

- Little show of concern and support by industrial-country representatives at the April IMF/IBRD Interim and Development Committee meetings probably will upset Cartagena participants.
- A lack of progress toward obtaining a political dialogue with industrial governments may lead to increased frustration and a call for more hardline demands.

- A breakdown of an IMF-supported adjustment program by a key debtor such as Brazil, Mexico, or Argentina could cause the affected government to voice a less moderate position at Cartagena Group meetings.

- An increase in either US-dollar interest rates or OECD protectionism would be interpreted by Latin governments as an insult and could prompt debtor countries to seek joint solutions to their problems. [ ]

The Cartagena Group has captured the attention of industrial governments by voicing Latin economic concerns. It cannot, however, force concessions from creditor governments and multilateral institutions unless the Group chooses to threaten banks with a moratorium on interest—which we have yet to see signs of its willingness to do. Although a disbanding of the Cartagena Group is possible, we expect members to continue to see merit in sharing information and presenting unified positions in multilateral institutions. [ ]

#### **Longer Term Concerns**

We expect the international financial system to be under stress for the next three to five years because of LDC balance-of-payments troubles. The key issue for debt-troubled countries over the longer term is whether they can return to sustained moderate growth or will experience several more years of declining standards of living and the political and social consequences. With sensible policies, IMF studies project that by 1990 the seven largest debtor countries can reduce the ratio of external debt to exports by two-fifths, while economic growth could increase to about 5 percent over the 1986-90 period, in contrast to a yearly average of 0.7 percent during 1981-84. Implementing and maintaining economic policies that will be compatible with long-term growth, however, is crucial. [ ]

The solution to the international debt problem requires that current adjustment measures be complemented by fundamental structural reforms. Bankers

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say that the major changes that debtors must implement include strengthening of the private sector, cutting back government involvement in business and industry, increasing incentives for private and foreign investment, and adopting export-oriented policies. We believe efforts in this direction will strengthen the resiliency of the economies, accelerate the restoration of creditworthiness, restore healthy domestic economic growth, and improve the external economic position.

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The adjustment efforts of LDCs will also require the support of the international banks, but our discussions with bankers indicate a strong reluctance to extend many new credits to LDCs. Major banks already are having increasing difficulty getting all creditor banks to participate in new money packages in cooperation with an IMF arrangement. Some bankers state that the banking community is about five years away from voluntary lending. According to other financial sources, the goal of many banks is to reduce their level of loans abroad over the next several years.

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Progress toward resolution of the debt problem could also be halted by an external shock any time during the remainder of the decade. In the event of sharply rising world interest rates, slowed OECD growth, increased OECD protectionism, or a major change in oil prices, the financial needs for some countries would rise substantially. Creditors, already reluctant to extend new credits to LDCs except on an involuntary basis in conjunction with IMF-supported programs, would find it extremely difficult to justify any new lending to debt-troubled countries.

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## Appendix A

### Individual Country Restructurings

Brazil is negotiating with its bank advisory committee on a rescheduling of \$45.3 billion in debt coming due in 1985-91. According to the press, most of the terms have been agreed upon—a tenor of 16 years, including seven years of grace, and an average spread of 1.125 percentage points above LIBOR—but the advisory committee is waiting for Brazil and the IMF to agree on its adjustment program before sending the package to the individual banks for approval. [REDACTED]

[REDACTED] agreement with the IMF still is several months away, and the banks will need the consent of newly elected President Tancredo Neves to complete negotiations. Brazil also is talking with the Paris Club about rescheduling official debt. [REDACTED]

Venezuela closely followed Mexico in agreeing with its bank advisory committee on a multiyear rescheduling agreement (MYRA) in September 1984. The restructuring covered some \$21 billion in public-sector principal repayments maturing through 1988. The MYRA has not been formally signed by the banks, however, because Venezuela has not yet cleared private-sector interest arrearages that are owed to the banks. Once this issue is settled, probably in the second half of 1985, the restructuring should be approved easily, largely because Venezuela is not in as serious a financial position as other major debtors. [REDACTED]

In December Argentina came to terms with the IMF and its bank advisory committee for new money (\$1.67 billion from the IMF and \$4.2 billion from the banks) and the restructuring of \$13.4 billion of debt maturing in 1982-85. Negotiations with both the IMF and the banks had been long and difficult, and announcement of the agreements greatly relieved the international financial community. [REDACTED]

[REDACTED] complete approval by all creditor banks was being held up until all of the \$4.2 billion new money loan was subscribed. [REDACTED]

Another arduous set of negotiations involved the Philippines, which in December agreed with the IMF on a standby arrangement, with the Paris Club on a

rescheduling of official debt, and with the banks on a restructuring package. The bank package included a \$925 million new money loan, establishment of a \$3 billion trade credit facility, and a rescheduling of \$4.5 billion in principal repayments due from October 1983 through December 1985 with an option to include \$1.3 billion in principal due in 1986. Formal approval of the package was expected by the bank advisory committee in late February, but it has been postponed indefinitely [REDACTED]

Poland initialed an agreement with the Paris Club in January 1985 to reschedule \$11 billion in principal and interest payments that came due during 1982-84. According to Embassy reporting, negotiations had been held up for two months over Polish insistence on a linkage between the agreement and the granting of new credits, better access to Western markets, and membership in the IMF and World Bank. The Paris Club finally agreed to allow the Poles to present their requests in a separate, nonbinding letter. This restructuring followed the commercial bank agreement reached last April and formally signed in July, which rescheduled over \$1.6 billion in principal repayments due in 1984-87. Banks granted Poland a MYRA primarily because the principal coming due on original loans in 1985-87 is so small that annual negotiations were seen as a waste of time. Moreover, we believe many bankers wanted to clear up Poland's remaining original maturities by 1986 in anticipation of the difficult task of rescheduling principal that was rescheduled under the 1981 agreement. Finally, the banks may have wanted to stake a claim on Poland's limited payment capacity in future years before the Paris Club completed its negotiations. [REDACTED]

Yugoslavia signed debt restructuring agreements with Western governments and commercial banks in May 1984. The banks restructured \$1.2 billion of 1984

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maturities on more favorable terms than Yugoslavia received in 1983. The official creditors rescheduled \$800 million in 1984 obligations and carried over nearly \$400 million of unused credits from the 1983 package. Meanwhile, talks are under way between Yugoslavia and its bank coordinating committee on a restructuring of 1985-88 principal repayments. Progress has been slow, however, as a result of Belgrade's prolonged attempt to secure better restructuring terms from the banks and delays in reaching agreement with the IMF on a new standby arrangement—a precondition to restructuring. Yugoslavia's official creditors are opposed to granting a multiyear arrangement now, despite hard lobbying from the Yugoslavs for a reversal of their position. [ ]

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Ecuador and its bank advisory committee reached agreement in December 1984 on a MYRA that covers \$4.3 billion in debt falling due in 1985-89. The package also includes \$200 million in new medium-term loans—primarily to clear up arrearages—and a renewal of a \$750 million trade credit. [ ]

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[ ] In addition, the Paris Club may meet in April to consider rescheduling Ecuador's debt owed to official creditors. [ ]

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